



**DATE:** February 2, 2021

**TO:** Mayor and City Council

**FROM:** Director of Public Works

**SUBJECT:** Adopt a Resolution Approving Garbage and Recycling Rates for 2021-2022

### **RECOMMENDATION**

That Council adopts a resolution (Attachment II) approving the recommended garbage and recycling annual rate increase of 2.838% for all residential and commercial accounts effective March 1, 2021.

### **SUMMARY**

Refuse rates typically increase on March 1 of each year, in accordance with the Franchise Agreement between the City and Waste Management of Alameda County (WMAC) that became effective on March 1, 2015. Rate Year Seven (RY7) of the Franchise Agreement will commence on March 1, 2021. Per the Franchise Agreement, the rates for RY7 shall be set based on a Consumer Price Index (CPI) adjustment to WMAC's current revenues. The calculated RY7 increase is 2.838%.

### **BACKGROUND**

The Franchise Agreement between the City and WMAC for garbage, recycling, and organics collection and processing is in effect for up to ten years and details a specific rate adjustment process for each year. In the first year of the contract, rates were negotiated and agreed upon at an initial rate. The rates for years two and three were increased by 3% each year. The Franchise Agreement required the rates for RY4 be set by following a detailed cost-based adjustment to ensure that WMAC received an after-tax return on its investment of 5.5%. The rate increase for RY4 was calculated to be 5.004%. Rate Years Five through Ten are to be set through an index-type of adjustment process considering the CPI, government fees, and other factors.

Until recently, the majority of recyclables collected in the United States were shipped to China. Policy changes enacted by China in 2017 and intensified in 2018 severely and negatively impacted the U.S. recyclables export markets, especially for mixed-plastics and mixed-paper. For example, when markets were strong, processors could receive more than \$200 per ton for mixed paper. Over the last three years some haulers have had to pay to dispose of mixed paper. In addition, local processors have experienced increased costs to remove

contamination from recyclables. Residential recycling in Hayward is collected primarily by Tri-CED, a subcontractor to WMAC. Tri-CED had been experiencing operational and financial challenges due to the China National Sword. In RY5, in addition to the CPI adjustment, Tri-CED requested a special rate increase of \$2.20 per household. Council approved an additional \$2.00 per household, which was incorporated into the rates. This increase, which provides an additional revenue of approximately \$1.1 million per year to Tri-CED, was within the rate adjustment threshold approved by Council in 2015 as part of the Franchise Agreement. In RY6, Tri-CED requested an additional \$1.73 per household, which Council did not approve.

Union City granted Tri-CED additional compensation of \$2.00 per household in 2019, and in 2018 Fremont initiated a \$1.50 per household recycling fee in response to China's National Sword policy. Other Alameda County jurisdictions that have approved additional compensation to recycling processors in response to the downturn in the recycling markets include Dublin, Livermore, and Berkeley.

## **DISCUSSION**

Staff received WMAC's rate application for RY7 in December 2020 and performed a detailed review of WMAC's application and ensured all calculations were consistent with the procedures outlined in the Franchise Agreement and confirmed the validity of the proposal. The annual percentage change in CPI between 2019 and 2020 was 1.8%; however the Agreement specifies that a minimum of 3% be used as a CPI floor in the rate calculation. After further contractual procedures that adjust for fees assessed by the State, County, and City, and for projected revenues for WMAC, the resulting increase applied to the RY7 adjustment calculation is 2.838%.

Over the past year, Tri-CED has continued to face challenges related to increased processing costs and decreased commodity values. The \$2.00 per household incorporated into the rates in 2019 was carried forward in RY6 and will be maintained again by the RY7 adjustment. Commodity markets have not noticeably changed in the past year so staff does not support any additional change to Tri-CED's compensation.

## **ECONOMIC IMPACT**

If approved, residents and businesses would pay 2.838% more for refuse and recycling services for the period of March 1, 2021, through February 28, 2022. With a 2.838% increase, the new monthly service charge for residential customers with the standard 32-gallon cart for garbage service would be \$36.63, or \$1.01 higher than the existing rate. For residents subscribing to the smaller 20-gallon cart, the new service charge would be \$25.06, or \$0.69 higher than the existing rate. A comparison of rates with several nearby communities is included as Attachment III.

## **FISCAL IMPACT**

With the proposed increase, which includes street cleaning and impact fees, it is projected that City revenues and franchise fees related to this agreement will increase by approximately \$265,000 annually.

## **STRATEGIC ROADMAP**

This agenda item is not specifically related to the six Strategic Priorities included in the Strategic Roadmap adopted in December 2020. However, the franchise fees collected by the City include a Street Sweeping Fee, which supports the City's street sweeping operations and helps to address Infrastructure Project 17: *Meet regulatory requirements for zero trash in stormwater by installing trash capture devices.*

## **SUSTAINABILITY FEATURES**

The rate increase will allow the City, WMAC and Tri-CED to continue to provide Hayward residents and businesses with recycling and composting services, so they can maximize the diversion of waste from the landfill. Solid waste management involves the safe and responsible management of discarded material from generation through processing to disposal. Reducing waste landfilled by maximizing the reuse, recycling, and composting of materials increases diversion, conserves natural resources, and plays an important role in making a community sustainable. No additional programs are contemplated as part of RY7 services.

## **PUBLIC CONTACT**

The public was notified of the rate increase in 2014 as part of the new franchise agreement announcement mailed to all rate payers. That notice provided an estimated increase for each year of the franchise agreement and indicated that the increase that would be effective on March 1, 2021, would not exceed 6%. If Council approves the proposed rate increase, customers will be notified of the actual increase through bill inserts included with their garbage bill and a message printed on their garbage bill.

## **NEXT STEPS**

The rate increase would be effective on March 1, 2021. If Council approves the rate adjustment, staff will work with WMAC to implement the new rates and advise customers. A brief statement regarding the fee increase will be printed on the customer's garbage bills.

*Prepared by:* Jeff Krump, Solid Waste Program Manager

*Recommended by:* Alex Ameri, Director of Public Works

*Approved by:*



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Kelly McAdoo, City Manager